MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

2002 ANNUAL REPORT

103-04257/

LETTER OF TRANSMITTAL

Regina, Saskatchewan
March 19, 2003

To Her Honour
The Honourable Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Municipal Financing Corporation of Saskatchewan for the year ended December 31, 2002, in accordance with **The Municipal Financing Corporation Act.** The financial statements included in this Annual Report are in the form approved by the Treasury Board and have been duly certified by the Corporation's auditors.

I have the honour to be, Madam,

Your obedient servant,

Jim Melenchuk
Minister of Finance
And Minister Responsible
Municipal Financing Corporation of Saskatchewan

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

BOARD OF DIRECTORS

Honourable Jim Melenchuk
Chairperson

Honourable Ron Osika

OFFICERS

Mr. Rae Haverstock
General Manager

Ms. Margaret Johannsson
Assistant General Manager

Mr. Jim Fallows
Treasurer

Ms. Denise Macza
Acting Secretary

CONTACT INFORMATION

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MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

HISTORY AND CURRENT HIGHLIGHTS – 2002

The Municipal Financing Corporation of Saskatchewan (the Corporation) was established to assist in making capital funds available for the financing of school, hospital and other essential construction and local improvement projects in cities, towns, villages and rural areas throughout the Province. The Corporation may borrow directly from private lending institutions or through the Department of Finance. The Corporation uses the funds borrowed to purchase a portion of the approved debentures sold each year by Saskatchewan local governments.

During 2002, the Corporation participated in the financing of twelve projects in Saskatchewan by purchasing $2.6 million of municipal debentures. Eleven of the debentures purchased were to finance sewer and water projects, and one debenture financed the construction of a gravel pit.

Four borrowers took advantage of the Corporation's policy that permits borrowers to redeem debentures prior to maturity. Debentures with a face value of $4.3 million were redeemed under this policy in 2002.

The Corporation's debenture holdings at December 31, 2002 totaled $22.2 million, down $3.9 million from the total at December 31, 2001.

The Corporation recorded a loss of $0.7 million in 2002 compared to a loss of $2.5 million for 2001. The smaller loss was caused by a reduction in interest expense that resulted from the maturity of $18.8 million of long term debentures. The $0.7 million loss was not significantly different from the amount budgeted (see note 8 to the financial statements).

For 2003, interest expense will again decline significantly due to the maturity of one of the Corporation's debentures payable and the effect of receiving a full year's benefit of debentures payable that matured in 2002. As a result, the Corporation expects to operate on very close to a break even basis in 2003.

The Municipal Financing Corporation of Saskatchewan is administered by a Board of Directors through the use of staff and facilities provided by the Department of Finance. The Corporation incurred $25 thousand of administrative expenses in 2002. These expenses were for audit fees and the reimbursement of the costs to the Department of Finance of providing administrative services. The Directors of the Municipal Financing Corporation of Saskatchewan do not receive fees and, with the exception of interest paid on borrowed funds, the Corporation had no other expenses in the current year.

A table showing results of operations for 2002, as compared to the previous year, as well as a detailed listing of debentures purchased in the current year is presented on page 4.

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

COMPARATIVE TABLE OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31

	2002	2001
	(thousands of dollars)	
Amount of debentures approved by the Corporation	$ 2,546	$ 1,223
Prior year's purchase commitments carried forward	345	969
Total purchase commitments for the year	2,891	2,192
Purchases completed	2,595	1,847
Purchase commitments outstanding at the year end	$ 296	$ 345

DEBENTURES PURCHASED IN 2002
(thousands of dollars)

Town of Balgonie	$ 345
Town of Martensville	239
Town of Watrous	228
Village of Kincaid	150
Village of Elbow	250
Rural Municipality of Lajord	66
Town of Martensville	540
Resort Village of Saskatchewan Beach	60
Village of Laird	181
Village of Riverhurst	126
Village of Marshall	160
Town of Birch Hills	250
	$ 2,595

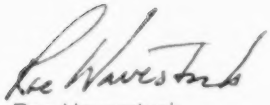
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management has prepared the financial statements of the Municipal Financing Corporation of Saskatchewan in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the previous year. Management is responsible for the reliability and integrity of the financial statements and all other information contained in this Annual Report.

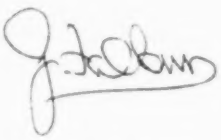
Management has the primary responsibility for the integrity and objectivity of the financial statements. To fulfill this responsibility, management maintains appropriate systems of internal controls, policies and procedures to provide reasonable assurance that assets are safeguarded and that the books and records reflect the authorized transactions of the Corporation.

E.J.C.Dudley & Co., the Corporation's external auditors, have reviewed the systems of internal control and audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express their opinion on the financial statements. Their report appears on the following page.

The financial statements have been examined and approved by the Board of Directors.



Rae Haverstock
General Manager



Jim Fallows, CA
Treasurer

March 19, 2003

AUDITOR'S REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the statement of financial position of the Municipal Financing Corporation of Saskatchewan as at December 31, 2002 and the statements of loss and reinvested earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Canada
January 28, 2003

E. J. C. Dudley & Co.
Chartered Accountants

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF FINANCIAL POSITION

As at December 31

	2002	2001
	(thousands of dollars)	
ASSETS		
Current Assets		
Cash and short term investments	$ 2,554	$ 18,674
Interest receivable	936	1,146
Municipal debentures receivable within one year	2,493	2,360
	5,983	22,180
Investments in municipal debentures (Note 3)	19,686	23,720
	$ 25,669	$ 45,900
LIABILITIES AND PROVINCE'S EQUITY		
Current Liabilities		
Interest payable and accrued liabilities	$ 406	$ 1,189
Debentures payable within one year	5,684	18,790
	6,090	19,979
Long term debentures payable (Note 5)	9,391	15,075
Province of Saskatchewan's Equity		
Reinvested earnings	10,188	10,846
	$ 25,669	$ 45,900

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF LOSS AND REINVESTED EARNINGS

For the Year Ended December 31

	2002	2001
	(thousands of dollars)	
Revenue		
Investment income - municipal debentures	$ 1,697	$ 2,323
Investment income - short term investments and cash balances	243	1,479
Gain on redemption of municipal debentures (note 3)	421	0
	2,361	3,802
Expenses		
Interest on long term debt	2,994	6,269
Administration	25	26
	3,019	6,295
Net (loss)	(658)	(2,493)
Reinvested earnings, beginning of year	10,846	13,339
Reinvested earnings, end of year	$ 10,188	$ 10,846

(See accompanying notes)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

STATEMENT OF CASH FLOWS

For the Year Ended December 31

	2002	2001
	(thousands of dollars)	
Operating Activities		
Net (loss)	$ (658)	$ (2,493)
(Deduct) non-cash items:		
Gain on redemption of municipal debentures (note 3)	(421)	0
Net change in non-cash working capital balances related to operations:		
Decrease in interest receivable	210	1,250
(Decrease) in interest payable and accrued liabilities	(783)	(1,041)
Cash (used in) operating activities	(1,652)	(2,284)
Investing Activities		
Purchase of municipal debentures	(2,595)	(1,847)
Amortization of discounts and premiums	(10)	(3)
Proceeds from sale of municipal debentures	4,753	2,817
Proceeds from maturing municipal debentures	2,174	2,073
Cash provided by investing activities	4,322	3,040
Financing Activities		
Repayment of long term debt	(18,790)	(28,210)
Cash (used in) financing activities	(18,790)	(28,210)
Net (decrease) in cash during the year	(16,120)	(27,454)
Cash and short term investments, beginning of year	18,674	46,128
Cash and short term investments, end of year	$ 2,554	$ 18,674

(See accompanying notes)

Additional Information:

Interest received during 2002 was $2.2 million (2001 - $5.2 million)
Interest paid during 2002 was $3.8 million (2001 - $7.3 million)

MUNICIPAL FINANCING CORPORATION OF SASKATCHEWAN

NOTES TO FINANCIAL STATEMENTS

December 31, 2002

1. Significant Accounting Policies

The Corporation's accounting policies are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Short term Investments

Short term investments are carried at cost. They consist entirely of highly liquid money market instruments that have very short maturity dates.

Investments in Municipal Debentures

Investments in municipal debentures are carried at amortized cost. The Corporation sometimes purchases debentures at a premium or discount where the interest rate yield required by the Corporation varies from the coupon interest rate offered by the local governments. Premiums and discounts in excess of $250 on the investment's purchase date are amortized to income using the straight-line method over the life of the investment. In this way, effective income derived from each debenture is adjusted to equal the Corporation's required yield for that debenture to its maturity.

Market Value of Short term Financial Instruments

For certain of the Corporation's financial instruments, the carrying amounts approximate fair value due to the immediate or short term maturity of these financial instruments. These short term financial instruments include cash and short term investments, interest receivable, municipal debentures receivable within one year, accounts payable and accrued liabilities, and debentures payable within one year.

2. Status of the Corporation

The Municipal Financing Corporation of Saskatchewan was established in 1969 pursuant to the provisions of **The Municipal Financing Corporation Act**. The Corporation's objective is to assist municipalities in financing their capital requirements.

The Corporation is a Provincial Crown corporation and is therefore not subject to Federal or Provincial income tax but is subject to Provincial corporation capital tax.

3. Investments in Municipal Debentures

The Corporation invests in fixed rate debentures issued by schools, hospitals, cities, towns, villages and rural municipalities throughout the Province of Saskatchewan. The Corporation's policy is to limit its purchase of debentures to no more than 50% of the total authorized borrowings of a capital project, except for water and sewer projects which can be up to 100% of the authorized borrowings. All issues of debentures purchased by the Corporation must be approved by the Saskatchewan Municipal Board.

3. Investments in Municipal Debentures (continued)

The Corporation has an investment in 58 (2001 - 55) debentures issued by 46 (2001 - 42) issuers with a weighted average yield of 6.84% (2001 – 7.59%) and maturity dates ranging from 2003 through 2019.

The carrying amount invested by issuer category is as follows:

	2002	2001
	(thousands of dollars)	
Cities	$ 11,238	$ 15,927
Hospitals	-	17
Rural Municipalities	182	125
Schools	1,179	1,984
Towns	7,598	6,835
Villages	1,982	1,192
	22,179	26,080
Receivable within one year	2,493	2,360
	$ 19,686	$ 23,720

The fair value of these debentures is $24.5 million (2001 - $28.5 million). This fair value is determined by discounting the debentures' future cash flows using investment rates presently available to the Corporation for investments with similar terms and remaining maturity, less costs of settlement.

The Corporation's policy is to permit borrowers to redeem debentures prior to maturity. The redemption price is set at the face value of the debenture plus 50% of the difference between the face value of the debenture and its fair market value. During 2002, debentures with a face value of $4,332 thousand (2001 - $2,817 thousand) were redeemed for proceeds of $4,753 thousand (2001 - $2,817 thousand).

4. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan. Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. These transactions and amounts outstanding at year end are as follows:

	2002	2001
	(thousands of dollars)	
Interest on long term debt	$ 2,686	$ 5,947
Administration expense	20	20

Other amounts due to related parties and the terms of settlement are described separately in the financial statements and the notes thereto.

5. Debentures Payable

Maturity Date	Rate (%)	2002	2001
		(thousands of dollars)	
Roytor & Co.			
December 15, 2002	12.875	-	2,500
Province of Saskatchewan			
February 1, 2002*	15.500	-	5,219
March 1, 2002*	16.100	-	1,571
April 1, 2002*	15.120	-	5,000
October 1, 2002*	14.160	-	4,500
March 1, 2003*	12.160	5,684	5,684
November 9, 2004*	12.960	9,391	9,391
		15,075	33,865
Repayment required within one year		5,684	18,790
Long term debentures payable		$ 9,391	$ 15,075

* Certain issues owing to the Province of Saskatchewan in the amount of $15.075 million (2001 - $31.365 million) are subject to redemption by the Province on six months notice. The Province has notified the Corporation that it does not intend to redeem these issues prior to maturity during 2003. These debentures are also callable on 30 days prior notice at the option of the Corporation.

Principal payments due on long term debt for the next five years are as follows (in thousands of dollars):

2003	-	$	5,684
2004	-	$	9,391
2005	-	$	0
2006	-	$	0
2007	-	$	0

The fair value of debentures payable is $16.8 million (2001 - $37.7 million). This amount is determined by discounting the debentures' future cash flows using borrowing rates presently available to the Corporation for debt with similar terms and remaining maturity, less costs of settlement.

6. Interest Rate Risk

The Corporation is exposed to interest rate risk due to the nature of its operations. Interest rate risk is created when the maturity dates of an entity's assets and liabilities are not precisely matched. The following table shows the matching of the Corporation's assets and liabilities:

Year of Maturity	Financial Assets	Financial Liabilities	Difference 2002	Difference 2001
		(thousands of dollars)		
2002	$ –	$ –	$ –	$ 2,201
2003	5,983	6,090	(107)	(3,079)
2004	1,568	9,391	(7,823)	(7,950)
2005	1,508	–	1,508	2,023
2006	1,772	–	1,772	2,979
2007	1,893	–	1,893	1,672
Thereafter	12,945	–	12,945	13,000
	$ 25,669	$ 15,481	$ 10,188	$ 10,846

The effective interest rates on the Corporation's assets and liabilities are as follows:

Cash and short term investments	2.90%
Investments in municipal debentures	6.84%
Debentures payable	12.66%

7. Commitments

Prior to December 31, 2002, the Corporation had approved the purchase of debentures from certain local governments of which $296.3 thousand were not purchased before year end.

8. Operations Budget

	Budget 2002
	($ 000's)
Revenue	
Investment income - municipal debentures	$ 1,700
Investment income – short term Investments and cash balances	230
Gain on redemption of municipal debentures	440
	2,370
Expenses	
Interest on long term debt	2,994
Administration	26
	3,020
Net loss	$ (650)